**Corporate Political Activity and Media Coverage:**

**Effects on Strategic Change and Firm Performance**

**-A Study on Chinese Business Leaders in the National People’s Congress**

**ABSTRACT**

Existing studies suggest that firms actively seek to “create” their environment by trying to shape government regulations that produce a more favorable environment. The ultimate way to link a Chinese firm to the government is to elect its business leader as a member of the National People’s Congress (NPC). The effect of corporate political activities on firm performance and strategic change will be explained through the lens of Chinese business leaders’ political appointments, especially their legislation behavior in the Congress. Drawing on a sample of 365 Chinese business leaders in the NPC for a period of 7 years, we found that having business leader’s legislation proposal(s) in the Congress is negatively associated with strategic change; also a business leader’s media coverage is positively associated with performance conformity but negatively associated with strategic change.

**Key words:**

Corporate Political Activity (CPA); political appointment; media coverage; firm performance; strategic change; CEO; China; National People’s Congress (NPC)

Marrying Washington and Wall Street adds value for shareholders.

-Merrill Lynch TV ad (2002)

We have been dating for a long time, but I will not marry the government.

-Jack (Yun) Ma, founder and Executive Chairman of Alibaba Group, China

**Introduction**

Existing studies examining the relationship between corporate political activities and firm performance come from various disciplines such as strategic management, economics, political science, sociology and finance. Corporate political activities, defined as corporate’ attempts to influence government policy in a way that favors the firm (Baysinger, 1984), are commonly used by firms across countries (Hillman, Keim & Schuler, 2004). In the U.S., there is a rich literature examining corporate political activities. Studies have shown that the majority (over 63%) of Washington lobbyists are hired by firms and trade associations (Baumgartner & Leech, 2001), showing the pervasive interests of businesses influence public policy. The dominant view in management and political science literature is that company’s corporate political activities are positively associated with firm performance (Pfeffer & Salancik, 1978; Boyd, 1990; Hillman, Keim & Schuler, 2004). Such activities could directly increase firm performance by influencing legislations to pass laws that change market structure to a firm’s competitive advantage (Peltzman, 1976; Stigler, 1971), by getting government contracts (Blumentritt, 2003), by obtaining licenses and permits to operate, and even by limiting the abilities of potential or current competitors in the market. Corporate political activities could also indirectly lead to higher firm performance by influencing public policies and creating an environment that favor its core business, or reinforcing social relationships between business executives and public officials that maintain favorable business conditions (Clawson et al. 1998). Theories such as resource dependence theory and industrial-organization economics support this view.

But another research stream holds an opposite view. Several recent empirical studies propose that corporate political activities are negatively associated with financial performance (Igan, Mishra, and Tressel, 2009; Aggarwal, Meschke, and Wang, 2012;), and firm’s political contribution is negatively associated with market performance (Hadani et al. 2013).

Despite extensive research on both sides, scholars haven’t reached an agreement on this issue, and the relationship between corporate political activities and firm performance remains complex and unclear.

It is indisputable that firms are actively engaging in political activities not only in Washington, but also globally, but most of these studies are U.S-centric view, or mainly focused on Western countries, such as those in the European Union (Coen, 1997; Skippari, 2003), and Russia (Kubicek, 1996). Few studies focus on Eastern countries such as Japan (Angel, 2000; Broadbent, 2000) and South Korea (Kang, 2002), and even fewer studies focus on China. Hillman and Keim (1995), and North (1990) proposed that the relationship between business and government, specifically, politicians on the board of directors and firm performance are likely to be different in different institutional contexts. For example, in China, out of the 2,985 deputies in the 10th National People’s Congress (2003-2008), 417 can be identified as business leaders of companies, which means in the whole Congress, near 14% deputies are CEOs, CFOs, COOs and general managers of companies.

The National People’s Congress (NPC) is the national legislature in China, with the ultimate right to legislate, to oversee government operations, and to elect major government officers (Li & Liang, 2015). Unlike other corporate political activities that “indirectly” influence public policy, having a CEO in the Congress is the most effective and ultimate way to influence public policy because business leaders are both managers and policy makers at the same time. Through legislation proposals, business leaders are able to propose nation-wide or region-wide legislation change to shape government regulations and produce a more favorable business environment (Truex, 2014). According to the report of the 10th NPC, over 80% of the deputy proposals were resolved in some way, and 50% resulted in policy improvement.

According to Forbes (2013), 71% of the top 500 richest Chinese business people have political appointments. In contrast, in the U.S. 115th Congress (2017-2018), there are only 37 former CEOs in the House, and 10 in the Senate (Manning, 2017). In the U.S., it is not uncommon for current or former CEO’s to be represented on presidential task forces or special committees. For example, in the G.W. Bush Administration, we did have corporate executives having seats on the President’s Energy Task Force and the Department of Commerce-led Advisory Committee on Trade Policy Negotiations (Hillmann et al. 2004), but currently there is no CEO on-the-job that is also in the House or Senate (Manning, 2017).

The active participation of Chinese business leaders in political activities offers a dramatic context in which to examine the relationship between a firm’s corporate political activities and its performance. In China, with the reforming and opening up, the expanded institutional regulation and the increase in the number of political interest groups have all stimulated corporate political activities, especially in the past 20 years. As the role of the government and the scope of its regulatory policies change over time, business must learn the coping strategies to deal with the corresponding uncertainty in the system. In addition, given the unique political and economic system of China, and the growing important political and economic role that emerging market like China plays in the world today, it will be important and interesting to explore firms’ political activities in the institutional context of China. By doing so, we could test and expand current theories and empirical findings from the Western to a totally different institutional context. We could also have a better understanding of the relationship between business and government in China, which is in such a dramatic changing era.

Therefore, in this study, the relationship between corporate political activities and firm performance will be explained through the lens of Chinese business leaders’ political appointments, especially their legislation behavior in the Congress.

Further, we examine the relationship between having business leader’s legislation proposal(s) and strategic change. Strategic change has been defined as the overall change in a firm’s pattern of resource allocation in multiple key strategic dimensions (Finkelstein and Hambrick, 1990; Carpenter, 2000): such as advertising intensity (advertising/ sales); research and development intensity (R&D/sales); plant and equipment newness (net P&E/gross P&E); non-production overhead (selling, general, and administrative [SGA] expenses/sales); inventory levels (inventories/ sales); and financial leverage (debt/equity).

The reasons that we want to focus on the relationship between corporate political activity and strategic change are as follows: first, this is the area that received the least amount of attention since at least two decades ago (Hillman et al. 2004). That is, company’s efforts to better understand internal procedures and routines related to effective implementation of corporate political activities remain unclear; second, timely strategic change is crucial as it reflects a company’s ability to anticipate and respond to environmental change, which contains both opportunities and pressures. According to Wiersema and Bantel (1992), this ability is one of the most important ways in which that a company’s competitiveness and viability are ensured. But surprisingly, to our best knowledge, there is no study examining the relationship between corporate political activity and strategic change.

Lastly, we want to focus on “fame and fortune”. The media coverage of business leaders has significantly increased in recent decades (Halff, 2013). CEOs in the Congress are “superstars”. Recent empirical studies propose that media coverage of CEOs significantly increases firm value. Nguyen (2015) found that firms with the highest level of CEO media coverage outperform those with the lowest levels by 8 and 7 percent per year, respectively, in abnormal stock returns. Russell Reynolds Associates (2003) surveyed institutional investors and found out that the presence of a “high-profile” CEO is one of the factors influencing investment decisions. Hamilton and Zeckhauser (2004) found out that as firm sales increase, the number of articles in the New York Times increases, while the overall percentage mentioning the CEO declines. But early works such as Cutler and colleagues (1989) examine the relationship between media coverage and movement of stock prices. And they didn’t find support that media coverage could explain stock prices or aggregate price movements, in other words, the media play little role, repeat only already-known news, and do not convey useful information (Bendisch, et al. 2013).

Despite of the increasing important role of media playing in influencing business, scholars still haven’t reached an agreement on this topic. Also the relationship between business leader’s media coverage and firm’s strategic change remains unclear.

This paper proceeds as follow: we first introduce the National People’s Congress of China, its function and how CEOs and other business leader deputies are elected. Then we review the existing theories and empirical studies examining the effects of business leader’s legislations behavior and media coverage on firm performance and strategic change. Data and method are discussed. Lastly, we present our findings and conclude this study by introducing its contribution to the literature.

**Background Information on The Chinese Business Leaders’ Political Appointments**

In this section, we describe the setup of the National People’s Congress of China and the manner in which the business leader’s appointed as deputies at NPC and how they influence public policy through legislation proposals.

The National People’s Congress is the national legislature of the [People's Republic of China](https://en.wikipedia.org/wiki/People%27s_Republic_of_China). Under China’s current Constitution, the NPC is structured as a unicameral legislature, a legislature that consists of only one chamber or house. The NPC has the power to legislate and amend the Constitution if needed, the power to oversee the operations of the government, approve the Annual Report of Government Work, and the power to elect the major officers of state, including the President of the country and the Premier of the State Council.

There are people’s Congresses at five administrative levels: national, provincial, prefectural, county, and township. Representatives at the county level and below are elected directly by the people, and higher-level deputies are elected by the Congresses below. In our sample, the NPC deputies, serving for a term of five years, are elected by deputies serving at the provincial level. The whole NPC, which has deputies of 2, 987 in 2016, meets once a year in Beijing for two to three weeks. Similar to the Congress of the United States, the NPC allocates seats to each province in proportion to its population, ranging from 13 representatives for Taiwan to 175 representatives for Shandong.

The political appointment ratio of Chinese publicly listed private firms has increased from around 22% in 1995, to 41% in 2012 (Li & Liang, 2015, see Figure 1). The ratio is defined as the number of listed private firms whose CEOs or Chairs are People’s Congress or People’s Political Consultative Conference (PPCC) members, divided by the total number of listed private firms.

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Insert Figure 1 Here

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There are also criticisms that NPC is a “rubber stamp”. Rubber stamp refers to an institution that by laws has considerable power but in fact has very little power. A “rubber stamp” label implies that the entity rarely or never disagrees with the more powerful institutions. In China, the more powerful institution refers to the Chinese Communist Party (CCP). Political scientists such as O’Brien (1990) believe that by the time a bill is placed before the NPC, the major content has already been decided by the CCP or the government and the NPC deputies are expected to simply just vote it through. The more powerful organ uses Congress to endorse and formalize laws, in order to create the superficial appearance of legislative process. One evidence raised in support of the “rubber stamp” notion of the NPC is that the NPC has seldom, if not never, rejected a law brought to the Congress by the government.

However, the NPC is not completely without influence and on the contrary, its influence is increasing. The reason we rarely see any laws rejected at the NPC is because the way that deputies attempt to influence the policy process is done in a non-confrontational manner. This is partially due to the cultural background of Chinese. Chinese people rarely criticize others openly and directly. Even if they do so, they have to do it in in a very polite way that involves expressions, i.e., *mianzi*, or “saving face” for oneself and for the person being criticized, especially as it relates to one’s social standing, prestige, and reputation.

As a pro-economic development regime, the Chinese state is ideologically oriented toward the business (Kennedy, 2005). The CCP has written in its Party Constitution that “development is the first priority to our Party in governing and rejuvenating the country”; “we shall continue to make economic development the central task and stick to the pursuit of comprehensive, coordinated and sustainable development.”

Therefore, business development is central to accomplishing these Party goals. Business often “educates” government officials to see problems from a business’ perspective, and business cooperates with government to achieve outcomes that benefit the company, the government and the country as a whole. Often with authoritative and first-hand knowledge of the economy and industry, business leaders in the Congress have earned a “privileged position” at the policy making table.

**Theory and Hypotheses**

**Business leader’s proposal(s) and firm performance**

Pfeffer and Salancik’s (1978) publication: *The External Control of Organizations: A Resource Dependence Perspective* has been recognized as the pioneering and foundational work on the resource dependence theory. The theory proposes that resources are key to organizational success and that access and control over resources is a basis of power. “…The organization, through political mechanisms, attempts to create for itself an environment that is better for its interest” and that “organizations may use political means to alter the condition of the external economic environment.” Therefore, business leaders in the NPC actively seek to create their environment by trying to shape government regulations that produce a more favorable environment for their firms.

However, we believe that scholars holding this view ignore a very critical fact that in the NPC, business leaders’ proposals are mainly industrial-focused or sector specific laws, that is, business is interested in the policies that affect their own sector or the whole industry. Business leaders almost never proposed legislations that could only benefit their own firms, such as obtaining licenses and permit to operate, or getting loans etc. The obvious reason is that they don’t want to be considered “selfish” because by definition, they are the deputies of the people, not their own companies. Also in order for a proposal to be presented to and considered by NPC, a minim number of 30 deputies are needed to sign off on the proposal, which significantly adds the difficulty of proposing a legislation that only benefit one company.

Evidence has shown that Chinese CEOs and business leader deputies propose and advance policies that favor their industries. For example, during the annual NPC conference in 2015, the CEO of Tencent Technology, Ma Huateng, proposed motions regarding the legislation on the Internet and digital industry, which is the industry that Tencent was in. The CEO of Geely Holding Group, Li Shufu, proposed motions on green energy automobile, driverless car and automatic driving in the NPC annual conference in both 2016 and 2017. He also called for reforms on the taxi services in the country. Geely is a Chinese multinational automotive manufacturing company whose main products are automobiles, taxis, motorcycles, engines, and transmissions. It sells passenger cars under the Geely and Volvo brands and taxis under the London Taxi brand. Although there is no information resealed at the national level regarding the result of each individual proposal, we do see the digital industry and the industry of electric and Eco-friendly automobile have received substantial financial support from the government in recent years. The proposals by Mr. Ma and Mr. Li benefit the industries they are in, not just Tencent and Geely two companies.

Therefore we believe that having proposals in the NPC will only lead to firm performance conformity, that is, “typical performance” among peer firms.

*Hypothesis 1: A business leader has NPC proposal(s) is positively associated with performance conformity.*

**Business leader’s proposal(s) and strategic change**

In NPC, most draft laws circulate between the NPC, the State Council, and relevant government ministries for months, some even for several years, before they are finalized and made publicly available. The average time of a legislation proposal to be finalized and made law is around 2 to 5 years, with very rare exceptions. This period of time is extremely valuable to NPC firms because they can change their business strategies and adjust their business practices based on their understanding of the formulation and execution of future policy change. This early access to important legislation information provides NPC firms a great “insider’s advantage”, which cannot be easily achieved by non-NPC firms, or the “outsiders”.

Timely strategic change is crucial as it reflects a company’s ability to anticipate and respond to environmental change, but the change could contain both opportunities and threats. As the legislation process is a long process that usually lasts for years and involves a large degree of uncertainty, business leaders who have proposals in the NPC know the change is coming but they are not sure when and the extent. This uncertainty drives them to maintain the status quo, or as the old Chinese saying: 以不变应万变, or counter changes with changelessness. Therefore they are less likely to engage in strategic change, at least during the Congress tenure.

Another factor is called “distraction effect”. The Congress deputies are all part-time deputies and almost all of them have full-time jobs. The whole Congress only meets once a year but it is not the yearly two-week meeting that decides the fate of any particular legislation bill. Rather, it is expected that any disagreements should be resolved ahead of time and consensus should be reached behind doors months or even longer before the annual Congress meeting convenes. The Congress deputies and government officials initiate direct contact long before any official policies are adopted. Such exchanges could be initiated by either side during the proposition and consideration of specific regulations and laws (Kennedy, 2005). In the case of economics or business related legislation, the government may ask for a meeting regularly with business leader deputies from certain industries; in order to finalize proposals, business leaders could also invite government officials to attend certain meetings of industry or business associations over policy issues. There are also many other forms of direct interaction between deputies from industry and the government. For example, NPC often sends delegations to meet with local governments, scholars and researchers, business associations, companies, or even employees in various cities, to gain opinions on certain legislation, or investigate policy issues. This study, research, and investigation process is a very critical regulatory duty of deputies. In 2016, More than 1,700 NPC deputies have participated in such activity, and the number of the total legislation proposals in 2016 was 8,239 (Annual Report of NPC Standing Committee, 2016). Ministries of the national and regional level could hold formal or informal hearings to get opinions from industry; also industry often invites deputies to visit their companies, or even participate in press conference and new product announcement, and use these occasions to bring up development and policy issues. Contrary to popular belief, policy proposals to call for new legislations or revision of existing laws that proposed by deputies are taken quite seriously by the CCP and the government, because deputies have undergone long time of and investigation and research in the field, and the legislation proposals are considered as first hand resources, therefore could significantly affect the ultimate policy change (Jiang, 2003). According to Truex (2014), 77% of the deputy proposals were resolved in some way, and 50% resulted in policy improvement.

The research and investigate process occupies a large amount of business deputies’ time and therefore make business leaders distracted and less likely to focus on strategic change. Therefore, we propose that if a business leader has NPC proposal(s), his or her company is less likely to engage in strategic change.

*Hypothesis 2: A business leader has NPC proposal(s) is negatively associated with strategic change.*

**The effect of Business leader’s media coverage on firm performance and strategic change**

Ego identity theory (Erikson, 1968) is a major individual development theory. The theory along with this research stream proposes that the ultimate purpose for individual development is self-fulfillment. Business leaders in the Congress have dual roles, and some even have more roles. They represent both the Congress and their companies, and most importantly, they represent themselves. The multiple roles require them to focus on fulfilling a deputy’s responsibilities, increasing firm performance and achieving personal goals. According to this theory, business leaders seek political appointments mainly for self-benefit. Before entering Congress, business leader focus on firm performance as it is a major and critical component of their self-benefits. However, after achieving business success and entering Congress, business leaders move to a different life stage: from self-orientation to social orientation, a life stage with the ultimate purpose of serving others and the society.

In a recent study by Li and Liang (2015), the scholars found that in China, the more pro-socially motivated successful individuals are, the more they feel obligated to contribute to the greater good of the society. Therefore business leaders are more likely to spend resources and effort in pursuing political appointments, such as NPC memberships. Once the business leaders enter the Congress, they have already proved that they were successful business leaders and they have received recognitions from the government, and the political activities offer less marginal economic benefit. The next stage is self-fulfillment, which is a socially orientated life stage. Furthermore, studies have shown that CEOs with a prominent media profiles are likely to prioritize their personal achievement and own success above that of the company (Collins, 2001), this is especially the case for our “business stars” in the NPC.

Taken all of these together, we expect that the volume of business leader’s media coverage is likely to lead the company to the “typical performance”, or performance conformity, and the media coverage is negatively associated with strategic change, mainly because business leaders move to the self-fulfillment life stage and are actively involved in political activities, they may just incline to maintain the status quo of business, as it has been proved to be successful.

*Hypothesis 3: Business leader’s media coverage is positively associated with performance conformity.*

*Hypothesis 4: Business leader’s media coverage is negatively associated with strategic change.*

Figure 2 captures the hypothesized relationships in this study.

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Insert Figure 2 Here

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**Data and Methods**

**Sample**

We analyze a large firm-level dataset provided by the National Bureau of Statistics (NBS) of China for the period 2002–2009, with an average of 289,600 firms each year. NBS conducted annual surveys of all state-owned enterprises and those non-state-owned enterprises with annual sales above 5 million RMB, or 762,000 USD. The dataset covers 37 manufacturing industries all over China. In 2004, for example, the firms in the dataset account for over 95% of China’s total industrial value, produced over 90% output, generated 97.5% exports, and employed over 72% industrial workforce.

From the dataset, we generated a sample of 365 firms with business leaders in the National People’s Congress, which account for 87.5% of the total firms that have business leaders in the NPC. We define a business leader as a chairman, CEO, CFO, COO or a general manager of the company.

The information reported to NBS should be quite reliable (Cai & Liu, 2009; Brandt et al. 2012), and there are several reasons that made scholars believe so. Firstly, the purpose of the NBC survey is to calculate the Gross Domestic Product (GDP). Every industrial company is required by the government to file an annual report of basic company information, production activities and accounting and financial information etc. Since 1995, NBS has established strict collecting, calculating and double-checking procedures regarding this dataset. The NBS also assigns every firm a legal identification number and tracks each company’s ownership change. Secondly, NBS’s policies clearly state that *the use of materials regarding units and individuals collected in economic census shall be strictly limited to the purpose of economic census and shall NOT be used by any unit as the basis for imposing penalties on respondents of economic census.* Therefore companies do not have clear incentives or motivations to misreport their information to the NBS, because such information should not be and cannot be used against them by other government agencies such as the tax authorities. Thirdly, we understand that misreporting of statistical data from China was a concern, but most of misreporting activities happens to local GDP data provided by local governments (Cai & Liu, 2009). This dataset, however, was directly collected by the central NBS, and therefore we can reasonably believe that it is less likely to be manipulated by local governments.

Sometimes a firm receives a new ID as a result of restructuring, merger, or acquisition. We created numerical IDs to manually link firms over time, using information such as firm’s name, address, industry, major product and establishment date to link them. Finally, we obtain a sample of 2,212 observations of 365 companies.

The demographic information of NPC deputies is collected from the official NPC deputy database, which provides deputy information such as name, age, and educational background, and all the other major background information. Additional information of the deputies, such as tenure in the company, tenure in the Congress, and whether the business leader is the company founder, is collected from deputies’ official company websites, and also Baidu Encyclopedia (www.baidu.com), which is the Chinese version of Wikipedia. Similar to Wikipedia, Baidu has profiles of NPC deputies and major company leaders.

**Measures**

*Performance conformity.* According to Hiller and Hambrick (2005), conformity refers to the extent to which a focal firm behaves likely a “typical firm” in the industry or among its peers and avoid deviation from industry standards or norms. To measure the performance conformity, we calculate return on assets (ROA) and compare the average ROA in the sample. If the performance is the focal firm is within 10% of the average of the all firms in the sample, variable *Performance conformity* will be coded “1”.

*Strategic change.* Following Finkelstein and Hambrick (1990) and (Zhang, 2010), we used five key strategic dimensions to generate a composite measure of changes in allocation of resources: R&D intensity, advertising intensity, nonproduction overhead expenses, inventory levels, and financial advantage.

*Media coverage* is measured as the natural logarithm of number of media reports. We use Python3 software to collect and content-analyze business leaders’ media reports from Sina Finance. Sina (http://www.sina.com.cn) is the largest website in China and it has over 100 million registered users worldwide. SINA Finance is believed to be the most comprehensive website that contains company financial information, business leaders’ news reports and other business related news and reports. The other reason we use Sina Finance to search business leaders’ media reports is because we can significantly reduce duplicated news reports and therefore avoid double counting of news. Unlike Google or Baidu Encyclopedia (www.baidu.com), which is the Chinese version of Wikipedia, Sina Finance rarely has duplicated reports on business leaders. To quantify business leaders’ exposure to media and in order to make sure the search results are accurate, we did the following: we count the number of articles that report a business leader’ activities. In the report, the role of a business leader could be a leader of a company, or a deputy of NPC, or both. We use the following combinations to search the media: a business leader’s full name and his or her company name; a business leader’s full name and the abbreviation of company name; a business leader’s full name and “NPC member” (*ren da dai biao*). The time range is from 2002 to 2009. One year before their Congress memberships start and one year after. Also because the “key words” we search are in Chinese, we need to encode the string of new feature to “GB2312” which is the code format in “search.sina.com.cn”. Through Python3, we will be able to run the codes and export the search results to an excel sheet. We also manually cross check at least half of results and find that the results are much satisfying.

*Proposal* is measured a binary variable, coded “1” if a business leader in the observation year submitted legal proposal as the primary sponsor to NPC and “0” if not.

To control any confounding effects of business leader’s personal characteristics, we also controlled their *age, tenure, level of education, founder status, international experience,* status of being a *former official, and gender*. Vast research has shown that those demographic traits relate to business leader’s cognition and influence firm’s decisions. Additionally, we also included the *government ownership*, coded as “1” if the government has any ownership in the focal firm and “0” if otherwise.

**Analysis and Results**

Given the unbalanced panel data, both fixed-effects and random-effects models were considered. To decide between fixed or random effects, we ran a Hausman test (Hausman, 1978) after regressing the dependent variables on all other variables, where the null hypothesis is that the preferred models are random effects vs. the alternative the fixed effects (Greene, 2008). The Hausman tests showed that there are no systematic differences of coefficients between fixed and random models. Therefore, random-effects models were appropriate for testing all three hypothesis.

A Wald test showed the presence of heteroskedasticity after running simple OLS regressions for all three dependent variables. Therefore, our analyses used robust standard errors to correct for heteroskedasticity (Huber, 1972; White, 1982).

Table 1 shows the descriptive statistics including means, standard deviations, and correlations among the variables. The mean of the natural logarithm of media coverage is 2.171, which is about 145 times of media reports in numeric terms. In any given year, about 4.4% of business leaders submitted at least one proposal to NPC. The average age of business leaders in our sample is about 53 years old, holding the position for about 18 years, and with a college degree. Nearly 10% of them are former government officials, 45% of them have some international experience, and 8% of them are female. Among all firms, about 10% is owned or partially owned by the government.

To assess the multicollinearity among variables, we calculated variance inflation factors (VIFs) after a simple OLS regression for each of the dependent variable. For both models, the mean of VIFs and VIF for each variable was below the conventional criteria (VIF <10) (O’Brien, 2007). Therefore, we included all variables in the model as there was no indication of multicollinearity concerns.

As shown in Table 2, we developed eight sets of random-effects regression. Model 1-4 are logit models where the dependent variable is *performance conformity*. Model 1 includes only control variables (business leader and firm characteristics). Model 2, 3, and 4 add the independent variables to examine the effects of *media coverage* and *proposal* on *performance conformity*. Similarly, Model 5-8 examine the effects of our independent variables on *strategic change*. Model 5 includes control variables only, and Model 6-8 includes the independent variables.

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Insert Table 1 and Table 2 about here

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H1 is not supported. As shown in Model 2 and 4 in Table 2, the coefficient for *proposal* is not significant. In H2, we hypothesized a positive relationship between *media coverage* and *performance conformity*. Model 3 and 4 examines this proposed relationship. We find that *media coverage* is positively associated with firm *performance conformity* and that the coefficient for *media coverage* is significant (p<.050), indicating support for Hypothesis 2.

Both H3 and H4 are supported. As shown in Model 6 though Model 8, the coefficient is negative and significant for both *proposal* (p<.050) and *media coverage* (p<.001), suggesting that business leaders who submitted proposals to NPC or received a high level of *media coverage* would make less changes to their organizations.

**Conclusion & Discussion**

We examine the intriguing phenomenon that an increasing number of Chinese business leaders, both from state-owned and private-owned enterprises, are seeking political appointments in the National People’s Congress (NPC). This study contributes to the literature of corporate political activity and firm performance. This research helps us to better understand the consequences of Chinese business leaders’ political appointments in the NPC, especially the effects of their legislation behaviors on firm performance and strategic change.

By collecting and analyzing a sample of 365 business leaders in the NPC, we are able to applies and expands Western individual development theories, such as Ego identity theory (Erikson, 1968), to an ancient Eastern culture and a unique institutional context of China.

We also contribute to the literature of business leader’s media coverage and its consequences on firm performance and strategic change.

Future research could explore the following questions: what are the antecedents of Chinese business leader’s political appointment? Now we understand that a business leader in the Congress is in his or her new life stage and firm performance may not be the priority, but what exactly drives a business leader to seek political appointments? Also can we apply the findings of the relationship between corporate political activities and firm performance in Western countries such as U.S. and U.K. to China? That is, creating a matching sample of firms with/without CEOs in the Congress, and investigating the effects of Congress membership on firm performance.

Furthermore, industry-level variables have received little attention. Research has shown that some firms in heavily regulated industries are more critically affected by public policies than others (Lang & Lockhart, 1990). This suggests that although business leader’s political appointment may be beneficial for all firms, these linkages will be even more important for those in heavily regulated industries. So the question becomes: what kind of firms and industries will benefit more from such political appointments?

Other industry-level variables, such as industry concentration and competitors’ political activities, could also have impact on firm’s corporate political activities. Concentration within an industry generally refers to the degree to which a small number of firms provide a major portion of the industry's total production. If concentration is low, then the industry is considered to be competitive. If the concentration is high, then the industry will be viewed as oligopolistic or monopolistic. In a high concentrated industry, because of the fewer total number of firms and only a few dominant firms, firms should be more motivated to seek political attachment and gain influence on public policies since the political payoffs are much higher than that in a fragmented and lower concentrated industry. Also competitors’ political activities could also influence a business leader’s motivation to seek political appointment. Schuler and colleagues (2002) found that in the U.S., firm-level political activities are positively associated with overall industry-level political activities. Hersch and McDougall (2000) report that US and Japanese automakers regularly match each other’s political donations. Skippari (2003) examines how firms in Finland both competed and cooperated with rivals to gain favorable political outcomes, which also suggests that intra-industry dynamics play a very important role in influencing corporate political activities. In China, we are expecting to find similar phenomenon. For example, in the IT industry, almost all of the CEOs from major dominant firms have political appointments.

Meanwhile, future research could also examine the location differences in the antecedents and consequences of political appointment. That is, are firms from certain parts of China more willing to build such connections with government? Are companies in certain districts greater beneficiaries from political appointments? What are the differences across different districts?

Lastly, it will be very interesting to explore the impact of different Congress levels on the relationship between political appointment and firm performance. We now know there are five administrative levels of Congress in China: national, provincial, prefectural, county, and township. And it is relatively difficult and takes longer time for business leaders to propose legislatures at the national level. Will it be relatively easier to propose similar legislatures at the provincial or county level? These questions have important practical implications and are left for future research.

**Figure 1**

**Political Appointment Ratios in Chinese Publicly Listed Private Firms, 1995-2012**

Political Appointment Ratio = The number of listed private firms whose CEOs or Chairs were PC or PPCC members / Total number of listed private firms

Data from Li & Liang (2015)

FIGURE 2

Theoretical Model

H1

Strategic change

H2

H3

H4

Business leader’s proposal(s)

Business leader’s media coverage

Performance conformity

**Table 1. Descriptive Statistics**



|  |  |
| --- | --- |
| n=2212. † p<0.1, \* p<0.05, \*\* p<0.01, \*\*\* p<0.001 (two-tailed tests). |  |

**Table 2. Regression Results**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Dep.= Performance Conformity | | | | Dep. = Strategic Change | | | |
|  | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 | Model 8 |
| Proposal |  | -0.592 |  | -0.603 |  | -4.864\* |  | -3.974\* |
|  |  | (0.76) |  | (0.76) |  | (1.89) |  | (1.85) |
| Media Coverage |  |  | 0.459\*\* | 0.460\*\* |  |  | -4.434\*\*\* | -4.406\*\*\* |
|  |  |  | (0.17) | (0.17) |  |  | (0.40) | (0.40) |
| Founder | -0.044 | -0.037 | -0.054 | -0.049 | -2.111† | -2.092† | -1.307 | -1.297 |
|  | (0.32) | (0.32) | (0.33) | (0.33) | (1.14) | (1.14) | (1.16) | (1.16) |
| Age | 0.028 | 0.027 | 0.025 | 0.024 | -0.612\*\*\* | -0.623\*\*\* | -0.624\*\*\* | -0.632\*\*\* |
|  | (0.02) | (0.02) | (0.02) | (0.02) | (0.07) | (0.07) | (0.08) | (0.08) |
| Tenure | 0.005 | 0.004 | 0.007 | 0.006 | -0.231\*\*\* | -0.238\*\*\* | -0.256\*\*\* | -0.262\*\*\* |
|  | (0.02) | (0.02) | (0.02) | (0.02) | (0.06) | (0.06) | (0.06) | (0.06) |
| Education Level | -0.185 | -0.192 | -0.259 | -0.267 | -1.479\* | -1.570\* | -0.469 | -0.548 |
|  | (0.18) | (0.18) | (0.19) | (0.19) | (0.62) | (0.62) | (0.64) | (0.64) |
| Government Owned | 0.106 | 0.101 | 0.135 | 0.132 | 1.708 | 1.682 | 1.553 | 1.532 |
|  | (0.44) | (0.44) | (0.44) | (0.44) | (1.52) | (1.52) | (1.51) | (1.52) |
| Former Official | 0.154 | 0.141 | 0.246 | 0.230 | -1.533 | -1.696 | -1.803 | -1.935 |
|  | (0.44) | (0.44) | (0.45) | (0.45) | (1.60) | (1.61) | (1.63) | (1.63) |
| International Experience | 1.101\*\*\* | 1.109\*\*\* | 1.015\*\*\* | 1.020\*\*\* | 0.736 | 0.854 | 3.033\*\* | 3.115\*\* |
|  | (0.30) | (0.30) | (0.30) | (0.30) | (1.00) | (1.00) | (1.03) | (1.04) |
| Female | 0.008 | 0.052 | 0.070 | 0.120 | -1.290 | -0.964 | -2.022 | -1.751 |
|  | (0.50) | (0.51) | (0.51) | (0.52) | (1.87) | (1.88) | (1.90) | (1.91) |
| Constant | -5.642\*\*\* | -5.551\*\*\* | -7.474\*\*\* | -7.370\*\*\* | 49.162\*\*\* | 50.209\*\*\* | 56.586\*\*\* | 57.380\*\*\* |
|  | (1.33) | (1.33) | (1.49) | (1.49) | (4.30) | (4.32) | (4.35) | (4.37) |
| n=2212. † p<0.1, \* p<0.05, \*\* p<0.01, \*\*\* p<0.001 (two-tailed tests). | | | |  |  |  |  |  |

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